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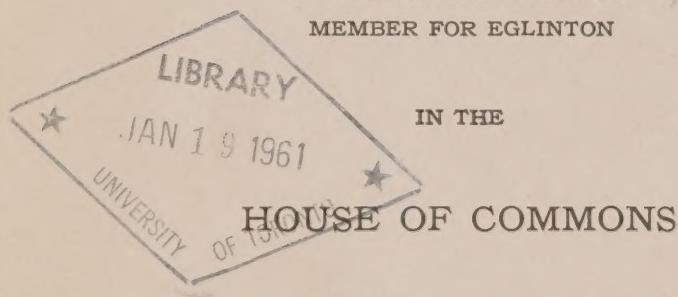


BUDGET SPEECH

DELIVERED BY

HONOURABLE DONALD M. FLEMING

MINISTER OF FINANCE
MEMBER FOR EGLINTON



DECEMBER 20, 1960

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DELIVERED BY

HON. DONALD M. FLEMING

MINISTER OF FINANCE

HOUSE OF COMMONS, TUESDAY, DECEMBER 20, 1960

THE BUDGET

SUPPLEMENTARY FINANCIAL STATEMENT OF THE
MINISTER OF FINANCE

Hon. Donald M. Fleming (Minister of Finance) moved:

That Mr. Speaker do now leave the chair for the house to go into committee of ways and means.

He said: Mr. Speaker, in previous budget speeches and on other occasions I have recognized the need for flexibility in our economic policies. Last March, when presenting the budget to this house, I stated that "sound budget policies must be flexible and adapted to changing economic conditions". Not only must policies be flexible from year to year, but there are occasions when it becomes appropriate to reassess the economic outlook and to adjust fiscal policies between the main budget dates. This is such a time.

Les budgets supplémentaires ne sont pas un phénomène absolument nouveau au Canada. Ils ont pour objet de répondre aux changements importants qui peuvent se produire dans le cours de l'année. Un gouvernement conscient de ses devoirs ne saurait se croiser les bras et laisser les événements suivre leur cours sous prétexte qu'on ne présente un budget qu'une fois par année. Notre gouvernement a l'intention de continuer à faire preuve de souplesse dans sa politique fiscale et dans les autres domaines, pour répondre aux besoins des Canadiens.

La présentation d'un budget supplémentaire pour l'année financière courante ne nous empêchera pas de présenter un budget régulier pour l'année financière prochaine. Avant de présenter le budget de l'année courante, nous reverrons avec soin, comme d'habitude, tout

le régime fiscal, en tenant bien compte des diverses demandes de redressements et de modifications d'ordre technique qui nous ont été adressées au cours de l'année.

La nécessité de présenter un budget supplémentaire à ce moment-ci découle d'une série de phénomènes récents, quelques-uns d'origine canadienne, mais la plupart d'origine étrangère. Je commencerai par dire un mot de ces derniers.

(Translation):

Supplementary budgets are not entirely novel in the Canadian experience. They are intended to deal with important changes in the situation that may emerge within the course of the year. A responsible government cannot stand by and allow events to take their course simply on the ground that budgets are brought down only once a year. This government will continue to maintain flexibility in its fiscal and other policies to meet the needs of the Canadian people.

The introduction of a supplementary budget for the current fiscal year will not take the place of the presentation of a regular budget for the next fiscal year. Before the current year's budget is presented there will be the usual careful review of the tax structure with full consideration of the various suggestions for adjustments and technical changes which have been received during the year.

The need for a supplementary budget at this time arises from a number of recent developments. While some of them originated in Canada, most of them originated abroad and it is to the latter that I shall address myself first.

(Text):

The need for a supplementary budget at this time arises from a number of recent developments. While some of them originated in Canada, most of them originated abroad and it is to the latter that I shall address myself first.

Since the early months of this year there have been increasing signs of some slowing in the rate of economic expansion in Europe. The situation differs from country to country: in the United Kingdom, by far the largest overseas market for Canadian goods, the level of industrial output seems to have remained just about stable since early summer, and it is clear that the economies of many continental countries, particularly Germany, will not be able to maintain indefinitely the very high rates of expansion they have experienced in recent years. Consequently we cannot expect increases in our exports to these countries to materialize without increased effort on our part.

Even more striking is the difference of outlook in the United States. Nine months ago, the economic barometers to the south of us predicted fair weather ahead. Over this prediction there was little disagreement; the only question at issue seemed to be the rapidity and extent of the economic expansion that was universally foreseen for 1960. Unfortunately, however, the United States economy has in fact expanded very little since the beginning of the year, and what expansion there has been was rather uneven. Our shipments to the United States, normally well over half our total exports, have not in fact behaved as we had good reason to expect. Indeed, for the first ten months of this year our exports to the United States declined by about $1\frac{1}{2}$ per cent while our exports to all other countries increased by over 20 per cent. Despite the slowing down in the United States, economic activity in that country continues at a high level and I am certainly not predicting any serious downturn. But it would be quite unrealistic to count on a substantial increase in our exports to that country in the near future.

Behind these shorter term developments in the major industrial countries of the world it is possible to discern certain more basic changes that are taking place. The downward drift on world markets of the prices of raw materials for several years now suggests that world consumption of raw materials, while continuing to expand, is not keeping pace with the general growth of economic activity. The industries rendering services are today in greater demand, as prosperity increases, than those producing commodities. There is no occasion for surprise in this; it reflects the fact that, as incomes expand beyond a cer-

tain level, a higher proportion of those incomes is spent on travel, recreation and other services than on food, clothing and other commodities.

There is a further point of some significance I should like to mention both in relation to raw materials and also to manufactures. In recent years, supply has overtaken demand, capacity has overtaken order books. During the war, and for more than a decade afterward, demand seemed almost insatiable. In part this demand stemmed directly from real physical shortages of goods; in part it reflected an exaggerated or inflated view of those shortages accompanied by an expectation of rising prices. As was inevitable, business enterprise all over the world, including Canada, pressed forward almost feverishly with plans for capital expansion and there have recently appeared some signs of the emergence of a temporary state of fairly widespread over-capacity. This is, perhaps, more pronounced today in North America than in Europe and Japan where for many years wartime destruction left disruption and shortages in its wake. Be that as it may, we now find ourselves in a re-equipped and highly competitive world.

This, of course, is not the first time, although it is the first time since the war, that the industrial countries of the world have experienced a period of vigorous competition associated with ample productive capacities; indeed, such conditions have in the past appeared in a far more acute form than they do today. Economies are already in process of adapting themselves to this situation and we can be confident that it is temporary and will disappear. Capital expansion will be resumed and countries such as ours that are blessed with rich resources should make appropriate preparations. But for the time being, these industries cannot be expected to exercise the same vigorous and buoyant influences to which we have all become accustomed.

Against this broad background, how is Canada faring? On the whole it is faring well; but, as might be expected, we have had some difficulties and some disappointments. The one which concerns us most is unemployment.

When on March 31 I presented the budget for the fiscal year 1960-61 I based my forecast of revenues on an increase in gross national product of about 6 per cent for the year 1960 over the year 1959. In fact, the increase will be less, and I shall explain later what impact on our revenues is to be expected in consequence. At the same time, and this point needs emphasis, the levels of business activity that Canadians have actually been achieving during this year are higher than ever before. While growth and expansion

have fallen short of our expectations, it remains the fact that in the course of 1960 new records have been set in the fields of production and consumption, trade and employment.

There are some who belittle these positive results to which all sections of Canada have contributed, who in so doing cast a shadow of gloom across the country, and, perhaps sometimes unwittingly, create a climate of apprehension and uncertainty in which enterprise and initiative are discouraged. Such persons, I believe, are doing a grave disservice to Canada. The fact is that the Canadian economy, after a long period of vigorous expansion, is continuing to operate at a very high level. Employment has continued to increase and for the first eleven months of this year was 1.7 per cent higher than in the same period of 1959 and 3.9 per cent higher than in 1957. These gains in employment are considerably higher than those achieved in the United States. In fact, from 1957 to 1960 employment in Canada increased almost twice as fast as employment in the United States.

However, during 1960 the trends of economic events in this country have closely paralleled the trends in the United States. While some economic indices have diverged the similarities have been greater than the differences. One may reasonably conclude that the forces that have resulted in a check to expansion in the United States have been also at work in Canada. In both countries, for example, actual fixed investment by private concerns has fallen appreciably below stated intentions; the accumulation of business inventories was markedly reduced throughout the year; housing starts were lower; increases in retail trade were less than in previous years. I do not intend, in this supplementary budget, to attempt a complete and detailed review of the economic situation at home and abroad. However, there are some features of the Canadian economy to which I must call special attention tonight.

We find ourselves in a situation which, in economic terms, is unusual, I might almost say paradoxical. As I have just mentioned, we have set new economic records this year. At the same time we have been experiencing an exceptionally rapid increase in our labour force and the level of activity has proved insufficient to keep our workers and capital facilities fully occupied.

Over the past several years Canada has had extraordinarily large additions to her labour force, rates of increase often two or three times those in other industrialized countries of the west. We have also had substantial gains in employment, as the majority of job-seekers have been absorbed into useful work. In the first eleven months of this year, there

were, on the average, 102,000 more Canadians at work than in the first eleven months of 1959. This was an increase of 1.7 per cent. However, as I say, it was not sufficient to absorb the entire growth of the labour force, which amounted to 2.8 per cent.

In prior years the high rate of growth in our labour force reflected in large measure the heavy immigration of mature adults and their families to our shores. Many of them brought skills and training acquired in the countries of their birth and they were readily absorbed into our highly technical industrial economy. There was also a tendency for a much larger number of married women to take or to look for employment as the increasing mechanization of household work has provided the opportunity for women to seek gainful employment outside the home. These factors are still present, to some degree. However, the growth of our labour force is now more directly attributable to the coming of age, from an employment point of view at least, of the large number of babies who were born in Canada during and immediately after the war. In the period from 1943 to 1947 there were, on the average, 90,000 more births in Canada each year than ten years before. These children have been growing up. By the early 1950's they were entering school; and municipalities found that they had a great shortage of classrooms and teachers, first for the primary grades, and then for secondary. Now they are reaching the labour market. This is happening under the changing economic circumstances to which I have already made reference. In the first decade after the war, the demand for Canadian products at home and abroad and thus the demand for Canadian labour was so high that youngsters with little or no training could easily find well-paid employment. Today the situation has changed and young people are finding that more training is necessary. The heaviest incidence of unemployment at the present time is amongst young men without special skills.

A second important feature of our economic situation to which I wish to call attention tonight is closely related to our labour force and our ability to keep it fully employed at appropriate wage levels. This is the competitiveness of Canadian products in markets at home and abroad. My reference to this subject will not surprise the house. Indeed in my past three budget speeches I have warned of the consequences of rising costs. In 1959 I pointed out that "world markets are becoming increasingly competitive, and unless we can keep our costs of production in line with those in other important trading countries we shall find it increasingly difficult

to sell our goods abroad and meet the competition of imports at home". Recent developments seem to suggest that our exporters have had more success in retaining and extending markets abroad than some other Canadian producers have had in maintaining their traditional share of the Canadian market. Each group, and each industry within each group, has its own special problems; and the ways in which government may best assist differ from industry to industry. Both employers and employees must seek to improve the competitive position of our economy by exercising restraint in their demands on the public, and by maintaining a proper relationship between remuneration and productivity. The general issue of productivity, and keeping costs down, offers a challenge to industry and labour and also to government.

There is a third feature of our present situation to which we must give special attention. In the fifteen years since the war we have experienced exceptionally rapid expansion. We have had one of the highest rates of capital investment in the world. Canadian investment has been distributed between primary industries, secondary and service industries, public utilities and social services. We have taken full advantage of our opportunities to expand our primary and secondary industries at a time when demand was strong. We have offered them special incentives, and we have incurred heavy obligations abroad. We have improved and extended our highways, and built hundreds of schools and hospitals, and hundreds of thousands of dwellings. On the whole, the results have been not only massive in quantity but reasonably well balanced in quality. The strength and diversity of the Canadian economy have been greatly increased, and so has its capacity to service obligations abroad.

Not only has our rate of investment during this period of exceptional demand for Canadian products been amongst the highest in the world, but the greater part of it has been financed from Canadian savings. At the same time we have been fortunate in being able to attract savings from abroad. If, as seems probable, our total capital investment, while remaining massive, increases somewhat less rapidly than in the past, it follows that the proportion to be financed from Canadian savings will be higher. This implies a change, perhaps a considerable change, in the sources to which Canadians must look for funds to finance their various investment programs. The key to the situation is the ability and willingness of Canadians of their own accord to save and to invest in Canadian enterprise, a theme which I have frequently stressed. The rearrangement of financial sources for Canadian investment will, of course, exercise

its influence in two important directions; first the ownership and control of Canadian industry and, second, the balance of international payments.

This leads to the fourth subject to which I wish to direct attention. This is the subject of trade and international payments and their relation to the employment situation. This year it appears that our net imports of capital will be about \$1 billion, and this is matched by a similar excess of our imports of goods and services over our exports of goods and services. In past years, when our economic capacities were stretched to the limit in the process of unprecedented economic expansion, we supplemented our own resources, both financial and physical, with goods and capital from abroad. But today our resources are not stretched, many of our capacities are under-utilized, and we have not the same need of resources from abroad for our economic expansion. The current scale of addition to our total foreign obligations is not necessary in relation to our current economic circumstances.

In the circumstances of today, if capital flows in from abroad in forms and in amounts that put upward pressure on the external value of our dollar, it impairs the competitive position of Canadian producers in both domestic and foreign markets. Imports of goods and services become unduly expanded, exports less than they could be, and our current account deficit becomes unnecessarily enlarged. While in many circumstances, and under many conditions, capital imports enlarge employment, aid productivity and broaden markets, they can also, in a different environment, aggravate an existing unemployment situation.

Capital imports, however, cannot be turned on and turned off at will like a tap. Many capital imports bring with them not only imports of goods and services to supplement our domestic resources but also other things that will always be welcome such as up to date technology and access to foreign markets.

It has sometimes been asserted that the participation of foreigners in Canadian business and in our capital markets should no longer be welcome and that investment from abroad should be sharply curtailed by policies directed to this end. This is not the view of this government. The result of blocking out foreign investors and foreign investment would be to produce a "little Canada", cut off from many of the contacts with the outside world that have enriched our national life. We would become comparatively isolated, and most of us would be disappointed by the effects on our economic development.

In any event, it is not really open to Canada to retreat into economic isolationism. Our country is committed by its very nature and by its history to participation in world trade and to full membership in the international community. We must sell a large proportion of our products in world markets; we must import many of the essentials of our everyday lives.

On more occasions than I can number, both in this house and elsewhere, I have spoken of our need for equipment, for markets and for techniques which accompany investment from abroad. We will want this investment, in greater or lesser degree, for many years to come. Accordingly we must continue to maintain a climate hospitable to foreign investment in this country. At the same time, in view of basic changes in the world economic environment, and Canada's altered situation, we must reconsider whether we wish, indeed whether we can afford, to give to foreign capital the special attractions and incentives to come to Canada that were appropriate in past years.

I have remarked that the excess of our imports of goods and services over our exports is running at a rate of about \$1 billion. This is below the deficits we ran in the past four years. Actually our commodity trade in the past few months has shown a surplus, and for the year as a whole will probably be very close to a balance. This compares very favourably with 1956 when we had a record merchandise deficit of \$728 million and an even greater record merchandise deficit with the United States alone of \$1,167 million. Since that time our exports of goods have risen by over 11 per cent, while our imports of goods have actually fallen. Much the greater part of the current account deficit for the year 1960 is being incurred in respect of services. These include service of capital imported in the past and also current services of very different sorts such as transportation and tourist expenditures. The amounts involved are sufficiently large to be a matter of concern to many Canadians.

This completes my review of the main economic issues to which I wished to draw the attention of the house tonight. The question naturally arises, how can government policy best contribute to the necessary adjustments which the changing circumstances require? In part, Mr. Speaker, I hope to supply some answers later tonight. But before doing so, let me remind the house of the government's economic program as set forth in the speech from the throne.

I referred a few moments ago to the fact that skilled workers nowadays find employment more readily than unskilled, and also to the related problems of productivity and competitiveness. The government is, as the

house knows, putting forward a number of measures in this connection. By increasing substantially our contributions toward technical and vocational training we intend to improve the efficiency of Canadian labour and to provide the oncoming group of young Canadians with the skills which will make it easier for them to find employment. At the same time, the actual construction of the training schools, of which the federal government will pay 75 per cent of the cost for the ensuing two years, will provide additional employment. By establishing a productivity council we shall encourage industry to seek out the most up to date and efficient methods of producing the goods and services which Canada and her customers demand.

Ever since the last war, a significant proportion of Canada's resources has been devoted to increasing and improving our stock of housing, schools, roads, and hospitals. The lengthy period of neglect of this aspect of our national life, during the depression of the thirties and during the war, and the rapid growth of our population since the war, made such a policy necessary. Much has been accomplished in a relatively short period of time, most of it at the provincial and municipal level and much of it with financial assistance from the federal treasury. However, there still remain important requirements which should be met. A period of less intense economic activity in the private sector provides an opportunity for meeting some of the needs of the public sector. This is why the government decided that it was appropriate at this time to provide additional incentives for urban renewal and slum clearance, sewage disposal, hospital construction and the construction of student residences in our universities. Legislation to these ends has already been passed by this house and it is our hope and expectation that municipal and other bodies involved will benefit greatly from our assistance. These measures, combined with more generous provision for housing, should exercise an early and favourable influence on employment in the construction and building material industries.

We are also proposing to commence a number of specific major projects which will lay the groundwork for resumption and acceleration of the long term growth of our natural resource industries. The planned extensions of rail lines to Great Slave lake and to the Mattagami area of Quebec represent a further probing of our northern frontier and its rich natural resources. Flood control projects around Winnipeg and in western Ontario will ensure the further development of these rich agricultural and industrial areas. Under the leadership of the Minister of Justice a Canadian negotiating team is actively working out with the administration in Washington

the final details of a treaty to deal with the international aspects of the Columbia river projects which, when their construction is commenced, will provide a powerful stimulus to the economy of British Columbia, and indeed to Canada as a whole.

In addition to these specific measures to provide the basis for continued growth of our resource industries as demand for our products expands, the government is proposing to introduce legislation of broad significance to the long term future of Canadian agriculture. This measure envisages a far-reaching program of rural development which taken together with existing facilities and program for assistance to farmers adds up to a well-rounded and comprehensive agricultural policy for Canada. Under this program, to be undertaken in co-operation with the provinces, we may look forward to a general betterment in the quality of our agricultural resources through projects for soil improvement and water conservation; the diversification of economic opportunities available in rural areas; the more effective use of marginal lands by converting them to community pastures and woodlots. These and other related activities encompassed in this program are directed to the long standing objective of the government to raise the standard of living and improve the economic opportunities of our rural population.

Our climate has always imposed upon us a markedly seasonal pattern of employment. The period from December to March is always marked by considerably higher levels of unemployment than the remainder of the year. Since coming into office the government has consistently attempted to offset this seasonal rise in unemployment by giving special encouragement to certain types of activity which create winter employment. This year we are redoubling our efforts in this regard and additional incentives have been announced to encourage municipal works projects. Special efforts have been made to accelerate construction of many federal works projects already approved by parliament, and the results are already beginning to show.

The government has given considerable thought to the question of mobilizing and, in a measure, channelling the savings of Canadians toward economic activities where demands for capital seem likely to be high or which have in the past been supplied from sources abroad. This presents a challenging problem which will not be solved quickly; however, we have made a beginning. I have already mentioned the additional federal assistance now available for slum clearance, sewage disposal and other projects. I should also remind the house that the

government will introduce legislation to provide greater flexibility in the investments of insurance companies in order to permit a more dependable flow of funds to meet the capital needs of Canadian industry and housing. Furthermore, the legislation establishing a new system of government guaranteed loans for small business will help to meet the needs of a vital and enterprising section of our community and, incidentally, one where Canadian ownership and control are almost universal.

I have already pointed out that extra efforts will have to be made if Canadian exports are to continue to expand. Such a situation presents a challenge, both to private enterprise and to government. Accordingly, the government is giving additional help and encouragement to Canadian exporters. The initiation, jointly by the Canadian government and the Canadian banks, of new export financing facilities will provide assistance to exporters of capital goods. And in connection with our export program as a whole, my colleague, the Minister of Trade and Commerce (Mr. Hees), called to Ottawa all his trade commissioners from every part of the world, in order to mobilize a new drive for markets. As in other parts of the government program, Canadian businessmen were invited to sit down with representatives of the Canadian government to work out a co-operative plan of campaign. Thus the approach of the government to foreign trade is expansive and constructive.

It would be quite out of keeping with such an expansive attitude toward exports to adopt, toward imports, the narrowly restrictive approach which is so often urged upon us. Canada will continue to support the principles and purposes of orderly and multilateral world trade.

It will be the intention of the government, Mr. Speaker, to continue to face new circumstances as they develop and to meet new needs as they arise. But we shall keep constantly in mind the paramount importance of maintaining and defending the integrity of our currency. Fears of creeping inflation were widespread only a year or two ago. Although more and more voices were raised to warn of the consequences of continued price rises, people acted for many years on the assumption that inflation would continue. In the past couple of years there have been signs that the efforts of the government and the people to contain inflation were at last achieving some measure of success. Though we must continue to be alert to the danger of a recrudescence of inflationary tendencies, the present position in North America appears to be that most if not all the immediate forces

of inflation have been spent, and that more and more people are willing to base practical business and personal decisions on this assumption.

This is a most welcome development. The maintenance of the purchasing power of the Canadian dollar is essential for steady economic growth, for saving and investment, and therefore for the expansion of employment. We have made real progress over the past several years in overcoming inflationary excesses. It remains the steadfast purpose of this government to prevent the recurrence of inflation which brings in its train social injustice and the atrophy of the nation's moral and economic strength. There must indeed be flexibility and elasticity in Canada's economic and financial policies; but these must not be used in a way which again invites inflation. I believe that we must succeed in this endeavour.

GOVERNMENT ACCOUNTS, 1960-61

I turn now, Mr. Speaker, to a re-appraisal of our budgetary position for the current year. In the March budget speech I estimated that our expenditures for the year ending next March 31 would be \$5,880 million, that our revenues would be \$5,892 million, and that we would have a surplus of \$12 million.

As I said earlier this evening, the trend of economic events in Canada, heavily influenced as it is by the course of economic activity in the United States, has shown some progress, but not nearly as great progress as seemed probable nine months ago. Last March I expected our rate of growth in 1960 to result in a gross national product about 6 per cent above that of 1959. Figures are presently available for only the first two quarters of 1960. The first quarter of 1960 showed an increase of 5 per cent in the gross national product as compared with the first quarter of 1959. The second quarter showed a comparable increase of $1\frac{1}{2}$ per cent. The G.N.P. for the first half of 1960 was thus $3\frac{1}{4}$ per cent above the first half of 1959 and 2 per cent above the revised figure for the whole of 1959.

On the basis of our March expectations I forecast that our revenues for the current year would be 11 per cent above those of last year. Up to the end of August our revenue inflow was right in line with this forecast. During the past three months, however, the increase in revenues has been at a less rapid rate, and if present trends continue I would expect our revenues this year to be about $7\frac{1}{2}$ per cent higher than last year. In other words, our total revenues are likely to be some \$210 million or $3\frac{1}{2}$ per cent less than forecast.

With the consent of hon. members I should like, Mr. Speaker, to insert in *Hansard* at this point a table of revenues showing the 1959-60 actual, the March forecast for 1960-61 and a revised forecast for 1960-61 based on actual figures for the first eight months of the current fiscal year and an estimate of trends over the remaining four months.

Mr. Speaker: Has the minister leave of the house to include this table at this point?

Some hon. Members: Agreed.

Mr. Speaker: Has the minister other tables?

Mr. Fleming (Eglinton): I have one more.

Mr. Speaker: Perhaps the house might give consent now to include that table also.

Some hon. Members: Agreed.

(*Editor's note: The table referred to is as follows:*)

TABLE I

Revised forecast of revenues
(in millions of dollars)

	Actual 1959-60	March forecast	Current forecast	1960-61
Personal income tax ...	\$1,566	\$1,750	\$1,715	
Corporation income tax	1,143	1,340	1,300	
Non-resident tax	73	80	80	
Estate tax	88	85	90	
Customs duties	526	580	525	
Sales tax	733	795	740	
Other duties and taxes	623	670	660	
Total taxes	4,752	5,300	5,110	
Non-tax revenues	538	592	570	
Total revenues .	5,290	5,892	5,680	

Mr. Fleming (Eglinton): On the expenditure side I expect the results for 1960-61 to show an increase of about \$100 million or less than 2 per cent over the estimate I put before the house last March. This increase is more than accounted for by three main changes; one resulting from the parliamentary decision made in August appropriating \$42 million for wheat acreage payments; the second due to much heavier losses than had been anticipated in the agricultural commodities stabilization account and in the prairie farm emergency fund; and the third an increase of more than \$50 million in the deficit of the Canadian National Railways. Last March the management of the C.N.R. forecast a deficit of \$24 million. I am informed that this figure is now likely to exceed \$75 million.

These three items will involve increased expenditures of about \$130 million, and since our total expenditures are expected to be \$100 million more than forecast, it appears that apart from these three items our other expenditures have not only been contained

within the estimate but are likely to be about \$30 million lower than I estimated in my budget speech last March.

The net result of these revised forecasts, based on eight months actual and four months estimated, is that our revenues for the current year are likely to be about \$5,680 million; our expenditures about \$5,980 million; and there would be a budgetary deficit of about \$300 million.

On the other hand, I expect that our net cash requirements for the current year are likely to be very close to the amount of \$210 million that I forecast last March. The shift from an estimated surplus of \$12 million to an estimated deficit of \$300 million will be offset by a probable shortfall of \$90 million in the demand for housing funds through the Central Mortgage and Housing Corporation as compared with the estimate I put before the house last March, and by a saving of \$225 million in the C.N.R.'s financial calls on the government. Instead of increasing its net debt to the treasury by the \$150 million to which I referred in my budget speech last March, the C.N.R. through its direct borrowing by issues of bonds to the public has reduced its net debt to the treasury by about \$75 million. In short, our net direct demands on the bond and money market and upon the savings of the Canadian people are likely to be about the same as I forecast last March.

Since April 1, 1960, the total of the government's direct and guaranteed funded debt has increased by approximately \$457 million. The outstanding volume of Canada savings bonds has increased by \$472 million, while our marketable debt, direct and guaranteed, has been reduced by \$15 million. The guaranteed debt has increased by \$250 million while our direct market debt has been reduced by \$265 million.

TAX POLICY

As I said earlier in my speech, this is not a full scale budget. It is a series of specific proposals supplementary to the regular budget I brought down last March. It is an integral part of the broad economic policy set forth in the speech from the throne.

The government is formulating economic policies to ensure the stability and the growth of Canada and the well-being and prosperity of the Canadian people. In the first place, we are putting forward proposals related to immediate or short term objectives, of which the most important is to combat unemployment, especially winter unemployment. Governmental measures under this heading are chiefly of a non-budgetary character although I shall be recommending additional measures tonight.

A second group of proposals is designed to influence the structure of the economy in the direction of longer term objectives. We wish to promote and stimulate balanced economic growth; we must exercise vigilance against the possible recrudescence of inflation; we wish, by appropriate influences, to help move our balance of payments in the right direction; we wish to encourage the most effective use of Canadian savings in the development, management and control of an expanding Canadian economy.

In formulating this supplementary budget I have attempted to probe some of the deficiencies in our tax system which seem in the conditions of today to militate against the full realization of our economic potential. The purpose is to achieve real and enduring benefits for the more efficient functioning of the economy as a whole.

The proposals I shall be submitting to the house will make a major impact on the course of developments over the next few years although I hope, in addition, that they will exercise considerable influence during the next few months.

Certain of the measures I am about to bring forward will provide business organizations, and particularly smaller ones, with increased assistance in the form of tax concessions to assist them to expand and provide more jobs where possible. In connection with imports, I shall ask the house to consider the rules determining what are goods of a class or kind made in Canada. I shall recommend measures to encourage increased investment. I shall also recommend the adoption of measures to ensure more efficient use of the savings of the Canadian people, to finance the development of our industry and our resources. These proposals, it is hoped, will make a substantial contribution to the increase of employment. In this same connection, I shall announce measures of assistance for new industries in areas of the country where unemployment is high. I shall also announce new measures of incentive for the further processing in Canada of the products of our resource industries and for the manufacture of new products. In the interests of financial equilibrium with the outside world, I shall propose the withdrawal of certain tax advantages which have hitherto provided incentives to the inflow of capital from abroad. In the light of changed economic circumstances and in the light of the encouragement we are now proposing to extend to Canadian savings and investment, these are no longer warranted. Finally, having regard to the importance of higher education, I shall bring forward certain measures of tax relief.

INCOME TAX ACT

I shall now proceed to describe the various measures in detail.

In our free society we depend to a large extent upon business to provide employment and expansion in economic activity. I have examined the system of taxes affecting business operations in an effort to extend encouragement to business and industry in these great tasks, the development of new fields and the creation of more employment.

I am submitting an important change in the structure of corporation income tax rates. At the present time the first \$25,000 of a corporation's taxable income is taxed at the low rate of 21 per cent as compared to the rate of 50 per cent applied to the excess. It is proposed that, effective January 1, 1961, the size of the income bracket bearing this low rate be enlarged from \$25,000 to \$35,000. Hon. members will recall that the first program of tax reductions placed before parliament by this government in December, 1957 contained a measure to aid small corporations by increasing the size of this initial bracket from \$20,000 to \$25,000. This has had very constructive effects. The present proposal to enlarge this bracket by a further \$10,000 to \$35,000 will extend the benefit of the low rate of tax to an additional 4,000 companies. Out of approximately 62,000 corporate income tax payers 55,000 have incomes below \$35,000, and will in future pay no more than 21 per cent.

Together with other policies proposed by the government at this session to assist small business, this measure will have a significant impact. Companies, especially those which are not large enough to have ready access to the security markets, are in a position to enlarge the scope of their operations and to create more employment if their immediate needs for cash to pay taxes are relieved.

This tax change is expected to reduce revenues by \$24 million on a full year basis. It will have no material effect on tax revenues for the remainder of this fiscal year, but the stimulus will, of course, be immediate.

Much has been said in recent months about using accelerated rates of capital cost allowances as a means of stimulating production. Perhaps some of these suggestions have been made without adequate consideration of the form such a program should take or the results that might be expected. Rates of capital write-off allowed under the income tax regulations are already generous and the scope for use of this device is not as great as many people appear to believe. After studying this matter very carefully, the government has decided to use the incentive of accelerated capital cost allowances in a selective way.

The most important of our immediate objectives, as I have already said, is to deal effectively with the problem of unemployment. Another of the objectives of the government is to achieve a wider measure of industrial processing in Canada of our own raw materials and natural resources. In addition, there is a widespread belief that industries in various fields are on the verge of expanding into new fields of endeavour. I fully share this optimism about the capabilities of Canadian industry. I am anxious to do everything within our means to encourage initiative and enterprise. As a powerful incentive to these ends I am pleased to announce measures to fulfil three major purposes: first, to assist new industries in areas where there is a substantial degree of continued unemployment over the years; second, to aid the development of new products from processing operations not hitherto carried on in Canada; and, third, to encourage the production of new types of goods. Double depreciation will, at the option of the taxpayer, be allowed in respect of capital expenditures incurred in the first year for these purposes, but may be applied in any of the first three years.

In some areas changing economic conditions have created a degree of chronic unemployment which requires special action. The purpose of this new program is to attempt to cope with this problem in the most effective way by encouraging new industries to establish themselves and provide additional employment in such areas. The areas to benefit from these new measures will be designated by the governor in council on the basis of the best and most complete information available.

In the two other fields, the further processing of Canadian materials and the production of new types of goods, the potential is great and the benefits will be of enduring value. The Income Tax Act already allows a rapid rate of write-off for current and capital expenditures in the field of research. Amongst other things, this new program will supplement these concessions in a very logical way. By expanding the range of our productive capacity, by making new goods in Canada, and by processing to a greater degree the raw materials produced here, we can broaden and strengthen the industrial framework of the nation.

Taxpayers who desire the special write-off in respect of capital assets acquired in fulfillment of any of the purposes I have mentioned will make application according to a procedure that will be announced in due course by my colleague the Minister of Trade and Commerce (Mr. Hees). The program will be introduced for an initial period of two years

commencing January 1, 1961. The effect on revenue is difficult to estimate. The reduction may be as much as \$25 million in a full year.

I turn now to measures to encourage investment and to ensure more efficient application of the savings of the Canadian people. I am proposing that the 4 per cent surtax on investment income be repealed as applied to income from Canadian sources. This additional tax, I am convinced, discourages investment by Canadian individuals to a degree that is out of all proportion to the small revenue that it yields. Moreover, since it does not apply to the return from savings of certain kinds, such as pensions and rents, but does apply to income from certain other desirable forms of savings, such as interest-bearing securities and equities, it discourages individuals from making investments of the latter types. By the same token it raises an additional difficulty for Canadian governments and corporations desiring to borrow in Canada. By removing this impediment to investment in Canadian securities we shall be taking a significant step toward the goal of encouraging Canadians to save and invest in their own country.

The loss of revenue from carrying out this proposal is expected to be \$11 million in a full fiscal year. A substantial number of surtax payers because of their age or the loss of the family breadwinner are dependent on fixed investment incomes—in most cases, quite modest incomes. These are people for whom our tax laws normally afford special consideration, and it is desirable that they should be relieved of this special tax.

To achieve greater participation of Canadian capital in the ownership and control of Canadian industry, I am bringing forward certain measures pertaining to the investment policies of pension funds and of investment companies or mutual funds, as they are sometimes called. Taken together these institutions provide what is perhaps the largest flow of individual savings available for investment in the ownership of Canadian industry. The purpose of the measures I shall introduce is to induce investment of these savings in Canada rather than abroad. The individuals who participate in pension funds, mutual funds and the like, who are saving for their own future, have an enormous personal stake in the future of Canada; so there is a broad coincidence of private and public interests in these measures.

Investment funds and mutual funds which qualify as "investment companies" under the Income Tax Act enjoy a special low rate of tax of 21 per cent. This is in recognition of the fact that these companies are essentially conduits through which an individual may channel his investments in order to obtain a diversification which he could not obtain by

investing directly. It has, I think, always been contemplated that the bulk of the investment made by these companies should be in Canadian enterprises, and at one time in the past such a requirement was imposed upon them by the Income Tax Act. This requirement was withdrawn in 1956, and an increasing amount of the funds of some of these companies has recently been diverted to investments outside Canada. It is only reasonable that companies whose shareholders enjoy the benefit of the 20 per cent dividend tax credit should place the bulk of their funds in shares of Canadian companies. Accordingly, I propose that corporations desiring to qualify as investment companies for tax purposes in the future must obtain at least three-quarters of their gross revenue in the form of dividends from taxable Canadian corporations. This will leave room for them to achieve a desirable degree of liquidity and diversification, while at the same time ensuring that the greater part of savings channelled through the hands of these companies flows into Canadian enterprise. It is recognized that some investment companies may not be able to meet this 75 per cent requirement immediately. In order to give them adequate time to make an orderly adjustment of their portfolios this income requirement will be 55 per cent for taxation years commencing in 1961 and 65 per cent for taxation years commencing in 1962. Companies already in excess of 65 per cent or 75 per cent respectively will not be permitted to fall below these levels during the next two years.

The amendment I have just described will not apply to companies whose business is primarily to invest in Canadian securities on behalf of shareholders who live in other countries. These are known as non-resident-owned investment corporations and they operate under different tax provisions which need not be altered.

Turning to employee pension plans, the latest published reports show that the assets of Canadian trustee pension plans now exceed \$3 billion and they are increasing by about \$300 million per year. A corporation or trust established for the administration of a registered pension fund or plan is exempt from income tax. Moreover, contributions to such pension plans by employers and employees are, in almost every case, deductible from income. In view of these concessions and the direct interest which all participants in pension plans have in the prosperity and development of Canada it is appropriate that a substantial part of their savings should be invested in this country. Because of the need to provide pensions of a predetermined amount, a substantial part of the funds of

these plans has always been placed in bonds, mortgages and other fixed income securities. No attempt is being made here to interfere with this pattern, and private decisions will continue to prevail as to the form in which the funds shall be invested. It is proposed, however, that pension plan trustees qualifying for tax exemption in the future must derive at least 90 per cent of their investment income from Canadian sources. As with investment companies, this income requirement will be introduced gradually. It will be 70 per cent in 1961 and 80 per cent in 1962. In this case again, pension funds already in excess of the 80 per cent or 90 per cent respectively will not be permitted to fall below these levels during the next two years.

I have some important changes to propose in the taxes on income paid to non-residents. These are frequently called the withholding taxes because the Canadian resident payer is responsible for withholding them and transmitting them to the government. By and large, they are imposed on the investment income of persons and corporations in other countries who have invested money in Canada. As I have already made clear in this speech, and frequently on other occasions, it is my view that the Canadian economy has derived great benefits from the inflow of capital from abroad and benefits still continue to accrue. Our national development has been accelerated thereby; the breadth and depth of our industrial structure have been increased; the scope of productive occupations for our own citizens has been extended. There is no intention, therefore, of recommending policies antagonistic to foreign capital. To do so would not be in the best interests of Canada.

In the light of the developments I have described, however, it has become desirable to propose certain measures which will, I believe, help the Canadian economy to achieve an improved equilibrium with the outside world. At this stage of our national development it is appropriate to withdraw some of the special incentives which were designed in past years to attract foreign capital. As a result of such special concessions, non-residents profiting from investment in Canada do not always bear their fair share of the general costs of government and administration, although they benefit in full measure from them. To redress this situation, I shall be recommending several amendments to bring the principal non-resident withholding taxes up to a uniform level of 15 per cent, which is recognized in our law as the standard or normal rate. The house will recall that parliament established 15 per cent as the standard rate for comparable purposes in part II of the Estate Tax Act.

I shall deal first with amendments pertaining to the payment of interest to non-residents. In recent years Canadian borrowers have frequently resorted to the capital markets of other countries. Under current conditions it is not helpful to the balance of payments, to the exchange rate or, indirectly but more important, to the employment situation, to continue to encourage provincial, municipal or corporate borrowers to issue bonds in other countries. In my budget speech of March 31, 1960 I warned such borrowers, in their own interests, of the exchange risks they incur by borrowing abroad. I shall recommend the withdrawal of certain special measures which were originally included in the Income Tax Act to facilitate the sale of Canadian bonds abroad, in very different circumstances from those existing today.

The act at present exempts from the 15 per cent withholding taxes interest on government of Canada bonds. I propose that this exemption be withdrawn with respect to the interest on all government of Canada bonds issued after tonight. The act also provides at present that interest received by non-residents from bonds of the Canadian provinces payable in Canadian currency is taxed at a reduced rate of 5 per cent. It is proposed that these bonds be put on the same basis as those issued by the government of Canada and accordingly non-residents receiving interest from provincial bonds issued after tonight or not committed by contract prior to tonight will be taxed at the full rate of 15 per cent.

The remaining exemption for interest which I propose to ask parliament to change is that which applies to interest payable in a currency other than Canadian currency. At present interest on foreign-pay securities is generally exempt from withholding tax. Interest on bonds and similar obligations issued after tonight or not committed by contract prior to tonight, whether issued by federal, provincial or municipal governments or by other Canadian borrowers, payable in other than Canadian currency, will become subject to the same 15 per cent non-resident tax as interest payable in Canadian funds.

It is expected that withdrawal of the tax exemption for interest payable in a foreign currency will abate Canadian borrowing in foreign markets. Special tax concessions for the purpose of increasing the saleability of bonds of Canadian borrowers abroad should no longer be necessary and there is no justification for maintaining a tax concession which provides a direct incentive for the issuing by Canadian residents of securities payable in a foreign currency.

I wish to make two points quite clear. First, all my proposals relating to withholding

tax on interest apply only to interest on new issues made after tonight. No new tax is being imposed on previous issues. Second, the withdrawal of the exemption for interest payable in a foreign currency relates only to interest payable on bonds and similar securities; it does not apply to interest on the normal business borrowings of Canadians operating abroad.

I should also mention a technical change in line with these proposals that will be made in the computation of the withholding taxes payable by non-resident insurance companies licensed to carry on business in Canada. These withholding taxes are calculated under special rules provided in the income tax regulations. Since the effect of these rules at present is to permit an exemption for interest payable in a foreign currency they will be amended to require that bonds and similar obligations payable in other than Canadian currency that are issued after tonight will be included with other Canadian assets for purposes of the computation.

The second exception from the general 15 per cent tax paid by non-residents which I shall ask Parliament to eliminate, concerns certain dividends. The Income Tax Act provides that the general 15 per cent tax on dividends paid by Canadian resident corporations to non-resident shareholders shall be reduced to 5 per cent where the dividends are paid to a non-resident parent corporation which owns all the voting shares of the Canadian paying corporation. The continuation of this special concession appears no longer to be justified.

The withholding tax was first imposed at 5 per cent in 1933 on dividends other than those from wholly-owned subsidiaries. In view of everything else that has happened, it is really extraordinary that this rate of tax has never been increased in all these years. It will be remembered, for example, that the rate of tax on Canadian corporations was 12½ per cent in 1933 compared with a top rate of 50 per cent today.

Non-resident corporations which derive dividends from subsidiaries resident in Canada have their property and their interests protected by Canadian laws in the same way as other non-residents who receive income from different forms of investment in Canada. It seems unnecessary and undesirable to continue an arrangement by which a non-resident corporation is granted a preferential rate, on the condition that it holds a large degree of ownership in the paying Canadian subsidiary. All non-resident shareholders, whether or not they happen to be controlling parent corporations, should henceforth pay the full 15 per cent tax on the dividends they derive from their investments in Canada.

In past years Canada has entered into a number of agreements with other countries whereby this country has undertaken not to impose more than a 5 per cent tax on dividends paid by a Canadian subsidiary to its non-resident parent corporation whose holdings constitute more than 50 per cent of the voting shares. There are provisions in some other agreements under which the rate of tax in question may be reduced to 2½ per cent or zero. In amending our Income Tax Act we must, of course, observe our obligations under these treaties.

It will be necessary to enter into negotiations as soon as possible with countries with which we have conventions providing for less than a 15 per cent tax on dividends. The purpose will be to impose the full 15 per cent rate in every case.

The tax agreement between Canada and the United States is of special significance in connection with the proposals I have outlined because of the large volume of dividends going from Canada to parent corporations resident in the United States. In one of the provisions each country has agreed to impose no more than 5 per cent on dividends paid by controlled subsidiaries to the parent corporation in the other country. However, the agreement provides for the cancellation of this particular provision without termination of the rest of the convention. When the present agreement was concluded it was foreseen that it might be necessary at some time to increase the 5 per cent rate and special provisions were included to cover this contingency. My proposal thus lies within the terms of the agreement with the United States.

Article XI of the agreement provides that either country may terminate its undertaking concerning the 5 per cent rate by imposing a rate in excess of 5 per cent. Commencing tomorrow Canada will increase its rate to 15 per cent. Because of the rules of budget secrecy followed in Canada it has not yet been possible to inform the United States authorities of our decision.

I may say that this situation is not unprecedented. In his budget speech of April 29, 1941, the then minister of finance informed the house that the tax on non-residents under the Income War Tax Act would be increased from 5 per cent to 15 per cent, and that the raising of the rate meant that the United States would be released from the requirements of the reciprocal tax convention of 1936. As hon. members are aware, a new and more comprehensive agreement, the one now in force, was satisfactorily concluded a few months later.

To sum up, the rate of tax to be withheld by all Canadian companies from all dividends paid to shareholders resident in the United States, and in other countries where the rate

of tax does not continue to be restricted by a tax agreement, will be 15 per cent, commencing tomorrow.

In addition to interest and dividends, there is another form in which earnings from activities in Canada are transferred to non-resident owners. When a non-resident corporation carries on business in Canada without incorporating a subsidiary here the profits attributable to its permanent establishment or branch in Canada are taxed at regular Canadian corporation income tax rates. In the past no attempt was made to place any tax on the non-resident corporation when the profits of the branch were withdrawn by its head office even though the transfer of profits from a branch is analogous to the payment of dividends by a subsidiary corporation to the parent. In view of the proposal to impose the full 15 per cent tax on dividends paid by all subsidiary companies a serious lack of balance would develop if some corresponding levy were not imposed on profits withdrawn from branches. We would then be in the anomalous position of offering to non-resident corporations which carry on business in Canada a strong tax incentive not to incorporate Canadian subsidiaries; this is the very reverse of the government's intention. Accordingly, I am proposing that the profits of branches of non-resident corporations carrying on business in Canada, computed after deducting the regular Canadian and provincial corporation income taxes, shall bear a special tax of 15 per cent in lieu of the non-resident withholding tax imposed on dividends. This will apply to profits earned after 1960. As in the case of subsidiaries, some of Canada's tax agreements with other countries will prevent the immediate imposition of this additional tax on the income of branches accruing to corporations resident in those countries.

An exception will be provided for banks and life insurance companies because they are often subject to statutory impediments to operating otherwise than through branches. A further exception will be made in favour of companies engaged in transportation or commercial communications across our international boundary.

An effort will be made to apply this new tax to branches in a manner closely parallel to the application of the non-resident withholding tax to dividends paid by foreign-controlled subsidiary companies. To the extent that it can be shown on behalf of a branch that net increases in capital investment in Canada are made, the taxable income will be reduced.

It is to be expected that where branches are affected by this tax decisions will be made in many cases to incorporate companies in Canada.

The increased revenue from all these changes with respect to income of non-residents is very difficult to estimate. However, it is thought that it may produce as much as \$50 million in a full fiscal year and about \$14 million in this fiscal year.

I come now to an important, although rather technical matter, in connection with interest rates on bonds to which attention must be given at this time. As hon. members are aware, bond interest is taxable income. Unfortunately, increasing use is deliberately being made of a device to pay bondholders the equivalent of interest in a form that is tax-free. If a borrower issues a one-year \$100 bond for, say, \$96 and the bond bears a coupon rate of 1 per cent, the bondholder will receive \$4 more than he paid for it when the bond matures at the end of the year. This excess over purchase price, plus the \$1 in interest, will give the lender a 5.2 per cent return on his investment but it has been found difficult to collect tax on more than the \$1 designated as interest. If the issuer of the bond is a taxable person he may not deduct as a cost of borrowing the discount at which he issues his bonds. Since he is permitted to deduct interest for income tax purposes the taxable borrower is discouraged from paying for the use of money through a discount instead of interest. However, this is not so where the borrowers are non-taxable, for example, provinces, municipalities, charitable organizations and school districts. For such organizations it is a matter of financial indifference whether they pay the cost of borrowed money in the form of interest or a discount.

To give an example of what is taking place, a province recently borrowed \$8½ million through issuing two-year debentures on which the contractual interest rate was only 2 per cent. Since this issue was priced at \$93.64 the effective yield over the two-year period was 5.4 per cent. Another province borrowed over \$5½ million on approximately the same terms. Another issue brought to my attention was a 1 year issue by a provincial authority amounting to \$1 million which had a contractual interest rate of 2 per cent but an effective yield to maturity of 5.6 per cent. In the long term field a province recently issued a 15-year bond with a contractual rate of 2 per cent priced at \$66.45 to yield about 5.3 per cent to maturity. In all these cases tax is collected from most holders of these bonds only on the income from the coupon. Obviously such issues are very attractive to individual lenders in the high income brackets.

I wish to plug this loophole in our tax law. I am therefore proposing that where the contractual rate of interest on any bond, debenture or similar evidence of indebtedness, issued by a tax exempt borrower, is less than 5 per cent, and where the bond or debenture is issued at a discount which provides an effective yield to maturity or to the earliest call date that exceeds the contractual rate by more than one-third, the whole of the discount shall be deemed to be income in the hands of the first Canadian resident taxable holder of the instrument. The purpose of this measure is not to raise revenues but to inhibit the use of a device to avoid payment of tax. A sufficient amount of discount will still be allowed to provide the flexibility that is requisite for the pricing of new issues.

My final tax proposal concerns university education. Of all Canada's assets by far the most valuable are her human resources. The preparation of her younger generation for the tasks which will confront them is of overriding importance. The house has recently approved the government's bill to assist the expansion of facilities for technical training. It is appropriate and timely to turn to the financial problems faced by university students and those to whom such problems deny the benefit of a university education.

Many deserving students require financial aid in order to attend university. Some provinces have inaugurated systems of loans to worthy students in need of direct financial assistance. These commendable plans are producing very beneficial results. The government is giving continuing study to this important aspect of the problem.

The other aspect concerns the income tax position of students and those on whom they are dependent. I propose a measure of tax relief for university students and their parents.

Some students, while pursuing their university courses, earn sufficient money to incur an income tax liability. I am proposing that a student in full time attendance at a university, if he is proceeding towards a degree, be allowed to deduct the tuition fees he pays to the university when computing his taxable income.

The income tax law already provides special assistance to parents who are supporting children at university by allowing them to claim a deduction in respect of such children even after they have attained the age of twenty-one years. However, if the student of any age has income in excess of \$950 he ceases to qualify as a dependent, and his parent then forfeits the \$500 exemption otherwise accorded to him by the law, even though he may be giving financial support to the student. I propose that the student's tuition fees be

allowed as a deduction from his earnings in determining whether he qualifies as a dependent. If his income after deduction of his fees falls below \$950 the parent will recover the \$500 exemption.

These changes will become effective on January 1, 1961.

CUSTOMS TARIFF

The speech from the throne contained two references to tariffs. They are as follows:

My government has decided that the modernization of the Customs Tariff of Canada, on which much has been accomplished in recent years, should be substantially accelerated. To make this feasible on a sound and fair basis, you will be asked to enlarge the tariff board and authorize it to sit in two panels.

You will also be asked to revise the definition in the Customs Tariff of goods of a class or kind made in Canada.

I should like to enlarge on both of these references now. I shall speak first of the proposed enlargement of the tariff board.

Throughout the period since this government assumed office the tariff board has been engaged on a series of references which have involved comprehensive reviews of major sectors of the Canadian tariff. Since June, 1957, I have tabled in parliament reports relating to basic iron and steel; pipes and tubes; fresh fruits and vegetables; and most of the textile items. In addition there have been reports on a number of other matters which, while of less general interest, were of concern to the industries directly affected.

The recommendations made by the board in the reports to which I have referred were largely implemented by legislation introduced in the last three budgets. The tariff revisions were in every case preceded by international negotiations. These negotiations were required in order to secure necessary modifications in Canada's commitments under the GATT, and in order to protect our exporters from the danger, indeed the likelihood, that trading advantages that benefit them in other GATT countries would be withdrawn. In each case we acted consistently with the internationally agreed rules, and we intend to continue that practice, provided, of course, that other countries do so also.

My 1958 budget introduced a comprehensive revision of the iron and steel sector of the tariff; the 1959 budget dealt with fruits and vegetables; and the 1960 budget dealt with the bulk of the textile schedule. Among them, these three budgets involved the amendment of some 400 items in the Canadian tariff.

Further tariff changes may be anticipated in due course on the basis of further tariff board studies recently completed, or now in progress. A particularly large number of tariff items is included in a major reference

now on the board's calendar, namely that on chemicals. The board also has before it references on certain machinery items, radio, television and electronic products, nails, chinaware and glassware blanks for decorating, and architects' plans, drawings and blueprints.

I am now announcing a new reference to the board relating to oil seeds and vegetable oils. Representations have been made to the government by growers of soya beans in eastern Canada and by growers of rapeseed in western Canada concerning the tariff on these products. It has also been represented that modification of the duties on oil seeds and vegetable oils would be of assistance to dairy farmers across the country. Other points of view concerning the appropriate rates of duty for these products have been expressed by the soybean crushing industry and the Canadian Feed Manufacturers Association. Moreover, because of the wide interchangeability of oilseeds and their products for a variety of agricultural and industrial uses modification of the duties for some items without compensating changes for others would be disruptive of production and trade. For these reasons I have decided that the best course would be to refer the matter to the tariff board for study and report.

In view of the heavy program of important work which awaits the tariff board, the government proposes to enlarge the board and to provide for expediting its work. The government is fully aware of the urgent need to modernize sectors of the tariff which have become out of date. At the same time we consider it important to provide for careful investigation and public hearings before major tariff revisions are introduced. This permits all interests and all points of view to receive full consideration. We believe that the tariff board is the appropriate body to undertake this task, and that in order to do so expeditiously the board should be enlarged sufficiently to permit it to adopt a panel system.

Accordingly I am placing on the order paper a resolution looking toward a bill which will provide for an increase in the board's membership from five to seven. Additional membership will make it practicable for the board to operate normally as two separate panels, and to proceed simultaneously with two inquiries or appeals. In addition to authorizing an increase in the membership of the board, the bill will provide also for consequential amendments designed to facilitate the adoption and operation of a panel system.

I turn now to the problem of "class or kind". This is not a new problem, nor one to which there is any easy solution. Our predecessors in office were, I know, aware of the

problem. Indeed the need to do something constructive about it was strongly and repeatedly urged upon them.

It might be advisable for me to sketch the background of the problem before explaining what we propose to do about it. The provisions of section 6 of the Customs Tariff containing the anti-dumping clause apply only to goods of a "class or kind made or produced in Canada". Moreover, there are in the tariff some 75 items which provide for free entry, reduced rates of duty, or duty drawback, in respect of specified types of goods when of a "class or kind not made or produced in Canada". The same goods if ruled to be produced in Canada bear substantially higher rates of duty.

The purpose of these items, as stated at the time the most important of them were originally established, was to provide for reduced rates of duty on "machinery of production, not procurable in Canada". The anti-dumping provision dates from 1904, and some of the "class or kind" tariff items are of equally early origin. However, most of the present "class or kind" items were established more recently, particularly during the period from 1935 to 1939.

These items require administrative interpretation of the meaning of the words "class or kind" when applied to particular cases. From various statements made when these items were introduced it seems clear that the government and the parliament of the day intended that the words "class or kind" be given reasonably broad interpretation. It was not intended that imported goods be classified as "not made" simply because the size, style or quality differed somewhat from that of similar products made in Canada. I believe that when free entry or reduced rates of duty were provided for in respect of goods of a "class or kind not made or produced in Canada" the intention was that the reduction apply to goods not directly or closely competitive with those produced in Canada. That I believe was the intent of the government of the period when most of these items were introduced. I should add also that until about 1950 the items in question were always interpreted in that way. That was the way in which they were being administered when present GATT commitments respecting these items were undertaken, and it provided the basis on which other countries evaluated the concessions.

As long as the spread between rates on goods "made" and those "not made" in Canada was quite narrow few important problems emerged. However, the wide spread which had been introduced by 1950 between the rates of duty on many "made" items and "not made" items created a strong incentive for importers to seek ways to stretch

the intent of the "not made" items, and to some extent their efforts have been successful. They were successful because of the unsatisfactory way in which "class or kind" was defined. The effect has been to erode to some extent the protection afforded to Canadian producers. Moreover, the broadening of the application of certain "not made" items which has occurred during the past decade has conferred on our trading partners in the GATT a windfall benefit for which they have not paid, and to the withdrawal of which they could not reasonably object.

There is a further point which I should emphasize in this connection. It is that neither the language of the section of the Customs Tariff which defines "class or kind", nor that of the order in council which was passed in 1936 pursuant to it, is bound under the GATT. Thus they can be amended so as to restore and confirm the former interpretation without any need to renegotiate existing international commitments. While the definition itself is not bound, a number of rates of duty that depend on the definition are bound. The volume of trade affected by these rates is substantial, and we would risk retaliation against our exports if we made changes in the definition without full regard to the interpretation of the provision which prevailed when the GATT was negotiated, that is, in 1947. This we do not propose to do.

As I have said, there has arisen in recent years a need to confirm the historic interpretation of "class or kind". This need arises with respect to two distinct classes of goods. One is what might be described as "custom made goods". Under the conditions which prevail in modern industry, it is increasingly the practice for installations of heavy production equipment, for example in pulp and paper mills, steel mills or power plants, to be in some respects custom made for each particular application. The basic machine may be of conventional type, but the ancillary equipment and controls are likely to differ in some respects from those of any previous installation made either in Canada or elsewhere. The question then arises in such cases, how can the concept of "made in Canada" or "not made in Canada" be applied? It seems to the government that in order to apply the concept in such cases one must have regard to whether or not there is in Canada the installed capacity and technical "know-how" to produce the unit in question, rather than to whether or not substantial quantities of identical units have been or—as under the existing definition—are being produced here. If one attempts to apply the latter test, the answer must in almost every case be "no"; yet this was surely not the intention

of parliament. In the government's view it is desirable, accordingly, to clarify the meaning of the phrase in the former sense, and to vest in the Minister of National Revenue (Mr. Nowlan) both the authority and the responsibility for applying it. At the conclusion of my remarks I shall present a resolution proposing that in the case of goods custom made to specifications they shall be deemed to be of a class or kind made or produced in Canada if adequate facilities exist in Canada for the economic production of such goods within a reasonable period of time.

The other class of goods affected may be described as "shelf goods". In respect of these goods the trend of decisions has been to narrow the concept of "class or kind". The question is whether in making "class or kind" determinations the Department of National Revenue should have regard only to imported and domestic goods which are virtually identical, or whether account should be taken of somewhat broader classes or kinds of goods which are similar in nature and purpose. The amendment which I shall propose would have the effect of confirming the broader interpretation which, as I have said, is the historic one. It would do this by providing that goods other than custom made goods shall be deemed to be of a "class or kind" made or produced in Canada if goods of approximately the same class or kind are made or produced in Canada. I should add that in respect of such goods the proposed amendment would retain in effect, and for the first time would incorporate in the statute, what has come to be known as the "ten per cent rule".

This "ten per cent rule" has been applied since 1936 pursuant to an order in council, P.C. 1618 of July 2, 1936, which states that articles shall not be deemed to be of a class or kind made or produced in Canada unless Canadian production thereof is sufficient to supply ten per cent of the normal Canadian consumption.

Statistical data are not always available as a basis for determining the normal Canadian consumption of particular classes of goods. However, by drawing upon confidential information available to them, the Department or Minister of National Revenue should be able to make reasonable estimates in instances where published data are inadequate. It is proposed, accordingly, that with regard to the determination of the normal Canadian consumption any appeal from departmental determinations shall be to the minister, and that his decision shall be final. With regard to questions of law, and with regard to questions of fact susceptible to determination by them, appeals will continue to go to the tariff board.

SUMMARY AND CONCLUSION

The net effects on revenues of all the tax changes I have proposed will be to increase revenues in this fiscal year by about \$14 million, and to decrease revenues in a full year by about \$10 million. For the record I should like to place in *Hansard* a table showing the effects of these changes.

TABLE II

Effect of Tax Changes on Revenues
(in millions of dollars)

	In 1960-61	In a full year
Tax on the first \$35,000 of corporate income	-\$24
Accelerated Depreciation	- 25
Investment Income Surtax	- 11
Non-Resident Withholding Taxes	+ 14	+ 50
	<hr/>	<hr/>
	+\$14	-\$10

The net result on our total budget for 1960-61 will be that estimated expenditures will remain unchanged at about \$5,980 million; estimated revenues will rise by \$14 million to about \$5,694 million; and the estimated deficit for 1960-61 will be about \$286 million.

Monsieur l'Orateur, je puis maintenant terminer mes remarques. Tout à l'heure, j'ai souligné la nécessité qu'il y a pour nous d'adapter notre programme budgétaire aux conditions économiques changeantes. Or les propositions que je viens de soumettre à la Chambre sont destinées à répondre aux changements qui se sont produits dans les conditions économiques au Canada, puis à frayer la voie vers un autre progrès majeur dans la réalisation des hautes destinées de notre nation.

Voici donc des mesures pour combattre les causes profondes et les manifestations du chômage; pour favoriser une croissance économique équilibrée; pour faciliter et encourager l'emploi le plus efficace des épargnes des Canadiens en vue de la mise en valeur et du contrôle de leur économie grandissante; pour réaliser un meilleur équilibre dans les relations commerciales et financières du Canada avec les autres pays; pour solliciter la mise en œuvre de l'entreprise de notre population; et pour sauvegarder les épargnes des Canadiens économies et industriels en maintenant la puissance d'achat de leurs devises.

Au sein de l'économie libre qui est le fier patrimoine des Canadiens, les droits et priviléges de la citoyenneté s'accompagnent toujours de responsabilités. Le gouvernement a sa propre sphère de responsabilité; le citoyen a aussi la sienne. Tout Canadien peut aider à résoudre le problème qui se pose à la nation. Accorder cette aide, c'est le rôle de chaque patriote.

Le gouvernement, s'acquittant de sa responsabilité envers la nation, a exposé au Parlement un plan général et courageux d'action constructive. Que le citoyen et le Parlement et le gouvernement s'unissent alors dans un puissant élan d'effort, de confiance et d'accomplissement.

(Translation):

Mr. Speaker, I can now conclude my remarks. At the outset I stressed the need to adapt budget policies to changing economic conditions. The proposals which I have now submitted to the house are designed to meet the changes which have occurred in economic conditions in Canada and also to clear the path for another major advance toward the fulfilment of this nation's high destiny.

Here are measures to overcome the deeper causes and manifestations of unemployment; to promote balanced economic growth; to facilitate and encourage the most effective use of the savings of Canadians in the development and control of their expanding economy; to achieve a better balance in Canada's trading and financial relationships with the outside world; to challenge the enterprise of our people; and to safeguard the savings of thrifty and industrious Canadians by maintaining the purchasing power of their currency.

In the free economy which is the proud heritage of Canadians, the rights and privileges of citizenship are always paralleled by responsibilities. The government has its sphere of responsibility; the citizen has his. Every Canadian can help to solve the problems of this nation. It is the role of every patriot to do so.

The government, bearing its responsibility to the nation, has set before parliament a comprehensive and courageous plan of constructive action. Let citizen and parliament and government then unite in a dynamic of effort, of faith, and of achievement.

(Text):

INCOME TAX ACT RESOLUTION

Resolved that it is expedient to introduce a measure to amend the Income Tax Act and to provide among other things:

1. That with respect to income of corporations earned on and after January 1, 1961, the amount of the first bracket of taxable income subject to a rate of tax of 21 per cent be increased from \$25,000 to \$35,000.

2. That for the 1961 and subsequent taxation years the additional tax of 4 per cent imposed on investment income of individuals be repealed as applied to income from sources in Canada.

3. That for taxation years commencing in 1963 and subsequent taxation years a corporation will qualify as an investment company

only if not less than 75 per cent of its gross revenue is received in the form of dividends from taxable corporations resident in Canada and that for taxation years commencing in 1961 and 1962 this requirement be 55 per cent and 65 per cent respectively of such gross revenue; however, this requirement shall be 75 per cent of such gross revenue for taxation years commencing in 1961 and 1962 in the case of a corporation that received not less than 75 per cent of its gross revenue in the form of dividends from taxable corporations resident in Canada in its taxation year that commenced in 1960, and 65 per cent of such gross revenue for taxation years commencing in 1961 in the case of a corporation that received not less than 65 per cent but less than 75 per cent of its gross revenue in the form of dividends from taxable corporations resident in Canada in its taxation year that commenced in 1960.

4. That for taxation years commencing in 1963 and subsequent taxation years a trust or corporation established or incorporated solely in connection with, or for the administration of, a registered pension fund or plan shall be exempt from tax only if 90 per cent of its income from investments is from sources in Canada and that for taxation years commencing in 1961 and 1962 this requirement be 70 per cent and 80 per cent respectively of such income; however, this requirement shall be 90 per cent of such income for taxation years commencing in 1961 and 1962 in the case of a trust or corporation that received not less than 90 per cent of its income from investments from sources in Canada in its taxation year that commenced in 1960, and 80 per cent of such income for taxation years commencing in 1961 in the case of a trust or corporation that received not less than 80 per cent but less than 90 per cent of its income from investment from sources in Canada in its taxation year that commenced in 1960.

5. That the exemption from the 15 per cent tax payable by a non-resident person on interest received from a Canadian resident, now granted for interest payable on bonds of or guaranteed by the government of Canada, be repealed with respect to interest on bonds issued after December 20, 1960, other than bonds held by

(a) national governments of foreign countries and their central banks, and

(b) such international agencies as may be prescribed by regulation.

6. That the reduction from 15 per cent to 5 per cent in the rate of tax payable by a non-resident person on interest received from a Canadian resident, now granted for interest on bonds or other obligations of or guaranteed by Her Majesty in right of a province, and for interest on bonds or other obligations

provision for the payment of which was made by a statute of a provincial legislature, be repealed with respect to bonds or other obligations issued after December 20, 1960, except bonds or other obligations issued after December 20, 1960 in respect of which a written agreement was formally entered into on or before that day for the purchase and sale, in specified amounts and at specified prices, of all of the bonds or other obligations included in the issue.

7. That the exemption from the 15 per cent tax payable by a non-resident person on interest received from a Canadian resident, now granted for interest payable in a currency other than Canadian currency, be repealed except for

(a) interest on any obligation where the evidence of indebtedness was issued on or before December 20, 1960,

(b) interest on any bond or similar obligation issued after December 20, 1960 in respect of which a written agreement was formally entered into on or before that day for the purchase and sale, in specified amounts and at specified prices, of all of the bonds or similar obligations included in the issue, or

(c) interest on any obligation incurred in the course of carrying on a business in a country other than Canada.

8. That the reduction from 15 per cent to 5 per cent in the rate of tax payable by a non-resident person on dividends received from a Canadian resident, now granted for dividends paid to a non-resident corporation which owns all the voting shares (except directors' qualifying shares) of the Canadian resident paying corporation, be repealed with respect to dividends paid after December 20, 1960.

9. That the rate of tax payable by a non-resident corporation on dividends received from a Canadian resident, now limited to 5 per cent in accordance with paragraph 2 of article XI of the income tax convention between Canada and the United States be increased to 15 per cent with respect to dividends paid after December 20, 1960.

10. That with respect to income earned on and after January 1, 1961 a special 15 per cent tax be imposed on a non-resident corporation carrying on business in Canada, other than a bank, life insurance company, transportation company or communications company and that the tax be computed by reference to the amount remaining after deducting from its taxable income earned in Canada the aggregate of

(a) the tax payable under part I of the Income Tax Act including the tax payable under subsection (5) of section 10 of the Old Age Security Act,

(b) income taxes payable to a province which are not deductible in computing income for purposes of the Income Tax Act, and

(c) an allowance in respect of net annual increases in its capital investment in property in Canada.

11. That where the contractual rate of interest on any bond, debenture, mortgage, note, bill or similar evidence of indebtedness issued by a tax-exempt borrower including a government after December 20, 1960 is less than 5 per cent, and the evidence of indebtedness is issued at a discount which provides an effective yield to maturity, or to the earliest call-date, that exceeds the contractual rate by more than 33½ per cent thereof, the whole of the discount shall be deemed to be income in the hands of the first Canadian resident taxable holder of the evidence of indebtedness.

12. That for the 1961 and subsequent taxation years a student in full-time attendance at a university in a course leading to a degree be permitted to deduct in computing his income the tuition fees paid by him in the year to the university, and that the said tuition fees also be deducted in computing the income of the student for purposes of determining whether the student is a dependent.

CUSTOMS TARIFF

Resolved that it is expedient to introduce a measure to amend the Customs Tariff and to provide:

1. That the said act be amended by adding thereto immediately after section 2 thereof the following section:

"2A. (1) For the purposes of this act, goods shall be deemed to be of a "class or kind" made or produced in Canada if

(a) in the case of goods other than goods custom-made to specifications, goods of approximately the same class or kind are made or produced in Canada; and

(b) in the case of goods custom-made to specifications adequate facilities exist in Canada for the economic production of such goods within a reasonable period of time.

(2) Notwithstanding subsection (1), goods other than goods custom-made to specifications shall be deemed not to be of a class or kind made or produced in Canada unless at least ten per cent of the normal Canadian consumption of goods of the same or approximately the same class or kind are made or produced in Canada.

(3) The decision of the minister shall be final with respect to the following matters:

(a) the normal Canadian consumption of the goods described in subsection (2), and

(b) whether goods are custom-made to specifications, and whether adequate facilities exist in Canada for the economic production of such goods within a reasonable period of time."

2. That subsections (9) and (10) of section 6 of the said act be repealed and the following substituted therefor:

"(9) For the purposes of this act, notwithstanding section 2A, goods may be deemed to be of a class or kind not made or produced in Canada where similar goods made or produced in Canada are not offered for sale to the ordinary agencies of wholesale or retail distribution or are not offered to all purchasers on equal terms under like conditions, having regard to the custom and usage of trade."

3. That subsection (4) of section 6A of the said act be repealed.

4. That any enactment founded upon this resolution shall be deemed to have come into force on the 21st day of December, 1960, and to have applied to all goods mentioned therein imported or taken out of warehouse for consumption on or after that day, and to have applied to goods previously imported for which no entry for consumption was made before that day.

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